

An industry update on ESMA Guidelines on Alternative Performance Measures

The European Securities and Markets Authority (ESMA) has published the Guidelines on Alternative Performance Measures ('APMs') on the 5th October, 2015 (which can be accessed through the following [link](#)). These guidelines apply to issuers who have securities traded on regulated markets (i.e. issuers subject to the Market Abuse Regulation and Transparency Directive) and persons responsible for drawing up a prospectus in terms of the Prospectus Directive. These guidelines are effective from the **3 July, 2016**.

The aim of these guidelines is to promote the usefulness and transparency of APMs disclosed by issuers in prospectuses and regulated information. By way of derogation these guidelines do not apply to APMs disclosed in the financial statements. Adherence to the guidelines will improve the comparability, reliability and/or comprehensibility of APMs in order to provide users a comprehensive understanding of their performance. Examples of APMs most commonly used include EBIT (Earnings before Interest & Tax), EBITDA (Earnings before Interest, Taxed, Depreciation and Amortisation), free cash flow and underlying profit or net-debt.

The key principles of the APM guidelines include:

- i. definitions of all APMs used should be disclosed in a clear and readable way;
- ii. the components of APMs as well as the basis of calculation adopted should also be defined;
- iii. APMs disclosed should be given meaningful labels reflecting their content and basis of calculation in order to avoid conveying misleading messages to users;
- iv. a reconciliation of the APM to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period should be disclosed, separately identifying and explaining the material reconciling items;

- v. issuers or persons responsible for the prospectus should explain the use of APMs in order to allow users to understand their relevance and reliability;
- vi. APMs should be accompanied by comparatives for the corresponding previous periods;
- vii. issuers or persons responsible for the prospectus should present reconciliations for all comparatives presented;
- viii. the definition and calculation of an APM should be consistent over time; and
- ix. if an issuer stops disclosing an APM, an explanation of the reason for considering that the APM is no longer relevant should be disclosed.

These guidelines do not apply to APMs:

- i. disclosed in financial statements;
- ii. disclosed in accordance with applicable legislation that sets out specific requirements governing the determination of such measures, example pro forma financial information, related party transactions, profit forecasts/estimates, working capital statements and capitalisation and indebtedness for which the specific requirements of the prospectus regime apply. Similarly, the guidelines should not be applicable to prudential measures including measures defined in the Capital Requirements Regulation and Directive – CRR/CRD IV.

Should you have any queries with respect to the above please do not hesitate to contact Ms Lorraine Vella, Senior Manager, Securities and Markets Supervision Unit by e-mail on (lvella@mfsa.com.mt) or Ms Stephanie Buhagiar Camilleri, Analyst, Securities and Markets Supervision Unit by email on scamilleri@mfsa.com.mt.

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